Embargoed until 1030 EAT (0730 UTC) 4 October 2023

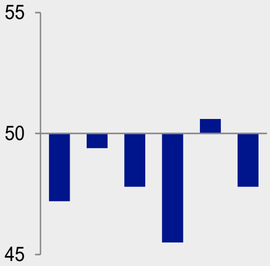
Stanbic Bank Kenya PMI™

PMI returns to contraction territory as new orders decline

47.8

KENYA PMI
SEP '23

PMI
Apr - Sep '23
sa, >50 = improvement



Output and new orders fall, after marginal rises in August

Jobs and inventories cut for first time in seven months

Input cost pressures accelerate to second-highest in near-decade survey history

The Stanbic Bank Kenya PMI slid back into negative territory at the end of the third quarter, as firms saw a sharp contraction in new orders following a brief respite in August. Elevated inflationary pressures and rising fuel bills acted to dampen client sales, whilst also leading to the second-fastest rise in input costs in the survey's near-decade history.

Businesses responded by reducing their output levels solidly during September, and made cuts to both employment and inventories for the first time in seven months. Selling charges were meanwhile raised sharply, as firms looked to pass costs through to customers.

The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI). Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration.

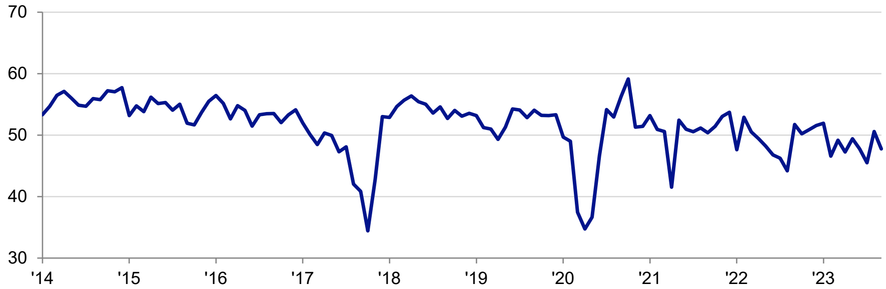
After signalling an upturn in operating conditions for the first time in seven months in August, the headline Kenya PMI returned to contraction territory in September. The index dropped from 50.6 to 47.8, indicating a moderate deterioration in the private sector economy.

Output and new order volumes both declined for the seventh time in eight months over the course of September. As seen in recent months, survey participants largely attributed the contractions to rapid price increases, which led to both intense cost pressures and a drop in customer demand. Declines in output and sales followed fractional rises in August which were largely driven by an abating of political demonstrations.

Detailed sector data pointed to a considerable downturn in manufacturing output, alongside contractions in services, wholesale & retail and construction. Bucking this trend, the agriculture sector saw output and new orders expand, although rates of growth had softened from earlier in the year.

Kenyan firms meanwhile reported

Stanbic Bank Kenya PMI
sa, >50 = improvement since previous month



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another marked rise in input prices in September, with the rate of inflation even accelerating to the second-highest on record. Anecdotal evidence indicated that currency weakness and higher fuel bills were mainly behind the rise. Output charges were raised sharply accordingly, albeit to a slightly lesser degree than August's 14-month high.

Demand weakness led to a renewed drop in firms' purchasing activity during September, resulting in the first decrease in stock levels for seven months. The fall in inventories also came amid a slight lengthening of delivery times, as price pressures resulted in cash flow issues at some vendors.

Likewise, Kenyan businesses reduced their headcounts for the first time since February, although the decrease was only slight overall. Firms signalled that lower new order inflows and a subsequent drop in backlogs had led them to cut labour capacity.

Looking ahead, firms maintained positive expectations for future activity in September, with optimism little-changed from August's five-month high albeit still weak in a historical context. Overall, 19% of survey respondents forecasted output to grow over the coming 12 months, with panel reports mainly linking this to expansion plans.

Comment

Christopher Legilisho, Economist at Standard Bank commented:

“The September Purchasing Managers Index (PMI) implies slower economic growth momentum after the positive performance in Aug. There was a notable contraction in output and new orders by the private sector in September, a scaling back of purchasing activity, and a slight drop in employment levels across all sectors other than agriculture.

“The decline in momentum is attributed to pump prices having been increased by the Energy and Petroleum Regulatory Authority (EPRA) by an average of KES23.80, and cost-of-living pressures arising from increased taxation as well as likely further tax increases, per the newly released medium-term revenue strategy. Furthermore, rising interest rates have been weighing on consumer demand, business levels, and expectations.

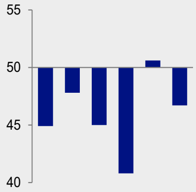
“Despite reduced output, manufacturing firms were the most optimistic about the outlook, whereas wholesale and retail firms were the least. Indeed, inflationary pressures persist, with both input and output prices still elevated - 42% of surveyed firms reported higher costs, often because of the deteriorating exchange rate.

“The September PMI paints a grim picture, and there may well be further near-term exchange rate depreciation despite recent positive reforms. However, we still foresee resilient GDP growth of 5.5-5.8%, led by agriculture.”

Output and demand

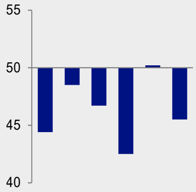
Output
Index

Apr - Sep '23
sa, >50 = growth



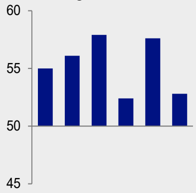
New Orders
Index

Apr - Sep '23
sa, >50 = growth



New Export
Orders Index

Apr - Sep '23
sa, >50 = growth



Output

Adjusted for seasonality, the Output Index moved back below the neutral 50.0 threshold in September, to signal a renewed fall in Kenyan private sector activity. The contraction was solid overall, albeit softer than the previous decline seen in July. Where output dropped, survey panellists related this to cash flow issues, rising fuel prices, and the impact of inflation on client demand. Downturns were seen in all monitored sectors, except agriculture.

New orders

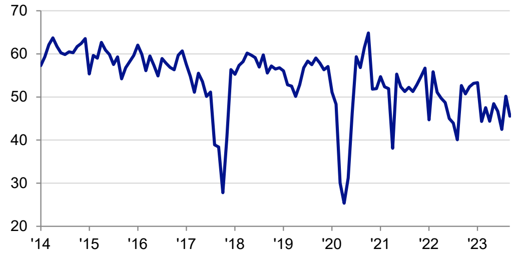
September data signalled a drop in new order volumes received by Kenyan companies, following a fractional rise in August. The fall was sharp and broadly consistent with the average seen in the previous six-month run of decline from February through to July. Almost a third of surveyed firms saw new orders fall over the month, with comments often noting a fall in customer demand due to cost of living pressures. In comparison, 21% of businesses reported an upturn.

New export orders

Kenyan firms registered an increase in export sales for the seventh straight month in September. The pace of growth softened considerably from that recorded in August, but was solid overall. Notably, some firms reported switching their focus to foreign customers as domestic demand fell, while there were also mentions of less competition and greater marketing.

Output Index
sa, >50 = growth since previous month

New Orders Index
sa, >50 = growth since previous month

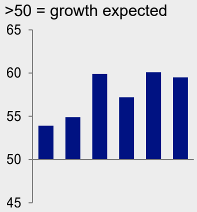


New Export Orders Index
sa, >50 = growth since previous month

Business expectations

Future
Output Index

Apr - Sep '23
>50 = growth expected

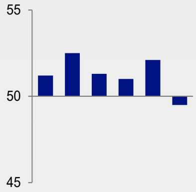


The outlook for future activity in the Kenyan private sector was little-changed from that seen in August, with businesses signalling a relatively mild degree of confidence towards the upcoming year. That said, confidence was still notably higher than the record low set in April. Approximately 19% of firms projected growth in the latest survey period, often citing business expansion plans. Manufacturers were the most optimistic out of the five monitored sectors, whereas wholesale & retail companies were the least.

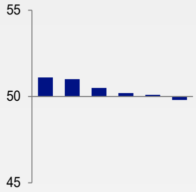
Future Output Index
>50 = growth expected over next 12 months

Employment and capacity

Employment Index
Apr - Sep '23
sa, >50 = growth



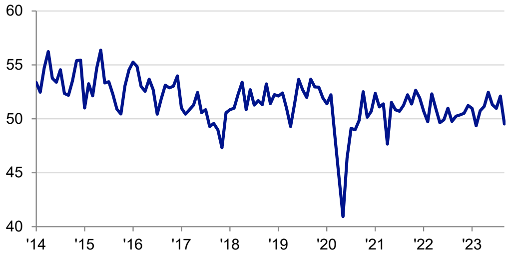
Backlogs of Work Index
Apr - Sep '23
sa, >50 = growth



Employment

Kenyan companies registered a slight drop in employment levels in September, as the respective seasonally adjusted index dipped below the 50.0 no-change mark for the first time since February. Around 4% of companies reduced their headcounts, which was often linked to lower new business levels. However, a similar proportion noted a rise. Four of the five monitored sectors saw a decline in employment, the exception being agriculture.

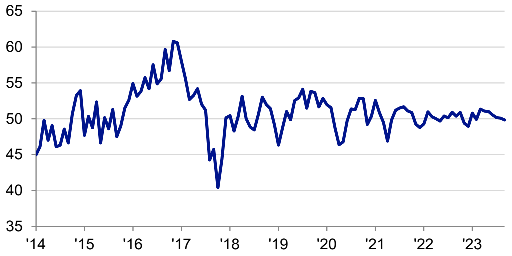
Employment Index
sa, >50 = growth since previous month

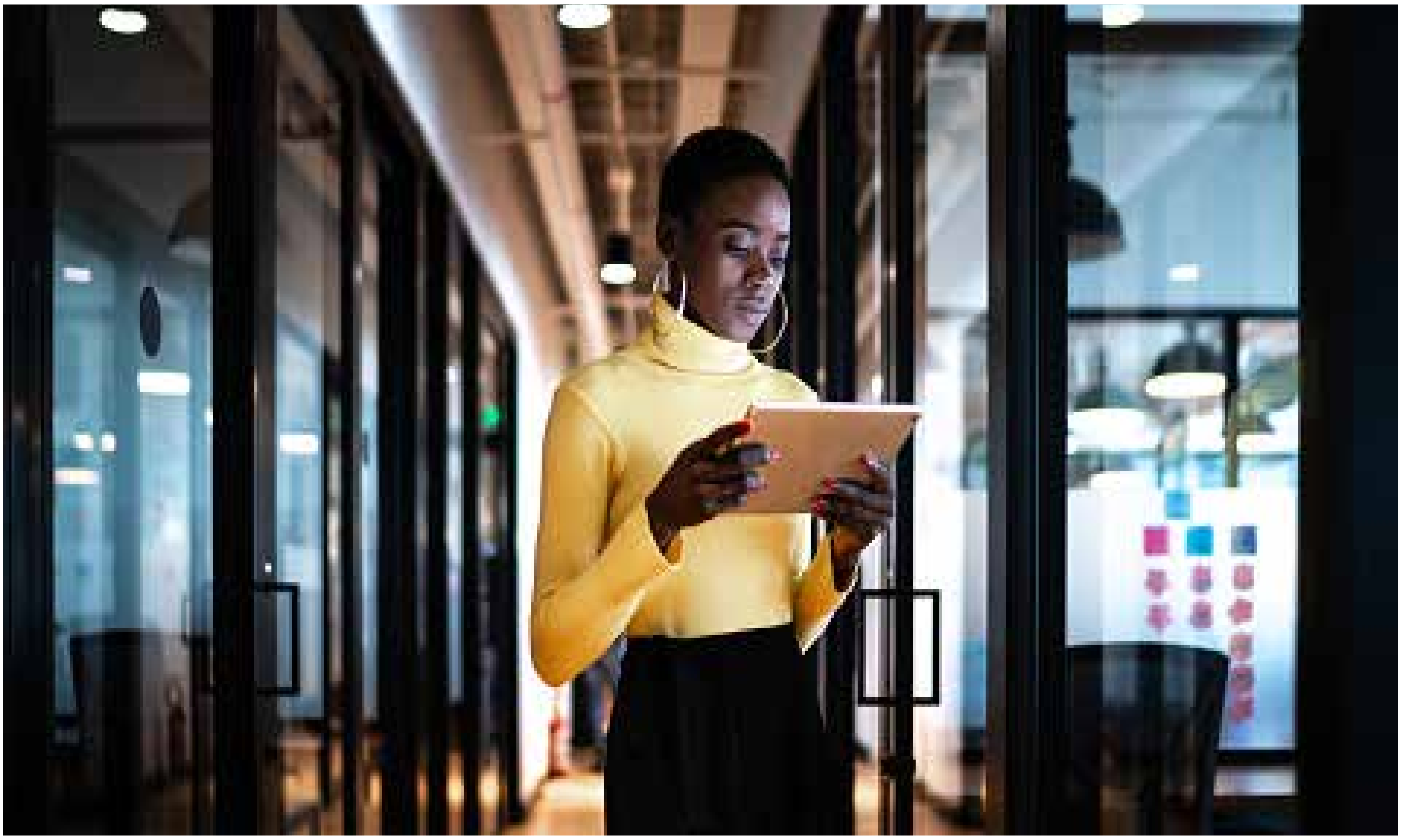


Backlogs of work

Adjusted for seasonal variation, the Backlogs of Work Index posted just below the 50.0 neutral mark in September, indicating a fractional reduction in outstanding work levels at Kenyan companies. This marked the first monthly decline since February.

Backlogs of Work Index
sa, >50 = growth since previous month



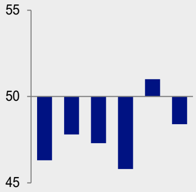


Purchasing and inventories

Quantity of Purchases Index

Apr - Sep '23

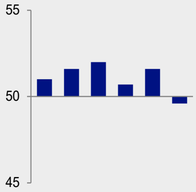
sa, >50 = growth



Suppliers' Delivery Times Index

Apr - Sep '23

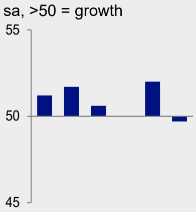
sa, >50 = faster times



Stocks of Purchases Index

Apr - Sep '23

sa, >50 = growth

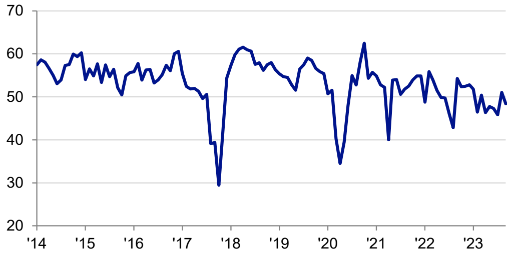


Quantity of purchases

Driven by the renewed fall in new orders, Kenyan firms scaled back purchasing activity at the end of the third quarter. This followed the first uplift for five months in August. The latest downturn was only moderate, however, and softer than the concurrent decline in new orders.

Quantity of Purchases Index

sa, >50 = growth since previous month



Suppliers' delivery times

Rising input prices presented cash flow and inventory challenges to some suppliers in September, according to survey panellists, leading to a deterioration in performance for the first time in six months. On the flip side, firms noted that reduced demand and strong input availability had helped other vendors to speed up deliveries. As a result, the overall lengthening of lead times on the month was only marginal.

Suppliers' Delivery Times Index

sa, >50 = faster times since previous month

Stocks of purchases

Inventories of inputs held by Kenyan companies were broadly stagnant in September, dropping fractionally from the previous month and for the first time since February. The reduction was largely due to lower client demand, according to respondents. Manufacturing and wholesale & retail led the decline in stocks, contrasting with solid expansions in agriculture and construction.

Stocks of Purchases Index

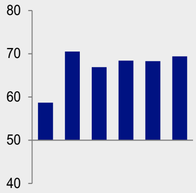
sa, >50 = growth since previous month

Prices

Input Prices Index

Apr - Sep '23

sa, >50 = inflation



Input prices

The pace of input price inflation remained historically elevated in September and even ticked up to the second-highest in the series history (following May's record). In total, 42% of surveyed businesses reported a monthly rise in costs, against 1% that saw a decrease. Higher input prices were generally related to a further deterioration in the exchange rate against the US dollar, which often resulted in increased purchase prices.

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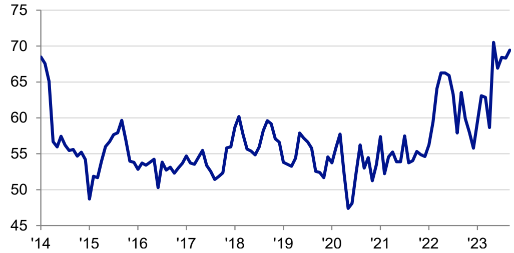
Input Prices Index

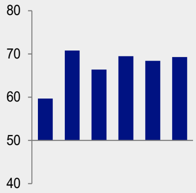
sa, >50 = inflation since previous month



Purchase Prices Index

Apr - Sep '23

sa, >50 = inflation

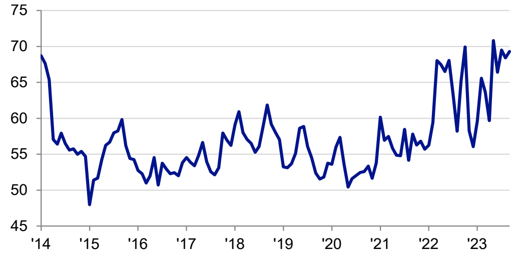


Purchase prices

The seasonally adjusted Purchase Prices Index increased slightly in September to register its fourth-highest reading since the survey began in January 2014. Companies often commented on the impact of a weaker shilling compared to the US dollar, especially on import prices. Higher fuel bills and taxes were also often cited.

Purchase Prices Index

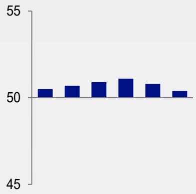
sa, >50 = inflation since previous month



Staff Costs Index

Apr - Sep '23

sa, >50 = inflation

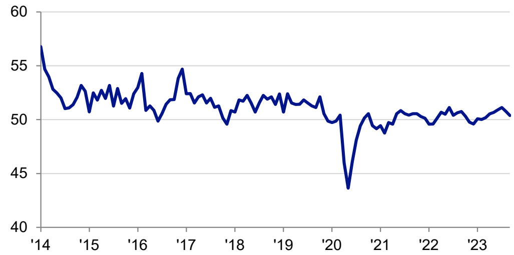


Staff costs

In contrast to purchase prices, the rate of staff cost inflation among Kenyan businesses moderated further in September, easing to the lowest for six months and one that was only marginal. While some firms raised salaries due to the higher cost of living, others reported cuts linked to falling sales. .

Staff Costs Index

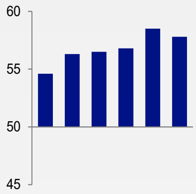
sa, >50 = inflation since previous month



Output Prices Index

Apr - Sep '23

sa, >50 = inflation

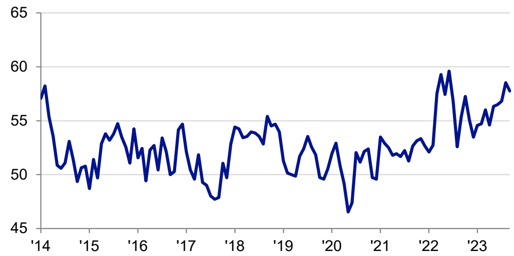


Output prices

Average prices charged by Kenyan companies continued to increase at a considerable rate during September. Despite softening from August's 14-month high, the overall rise was still among the quickest recorded in the series near-decade history. Higher charges were overwhelmingly linked to the pass through of input costs to clients.

Output Prices Index

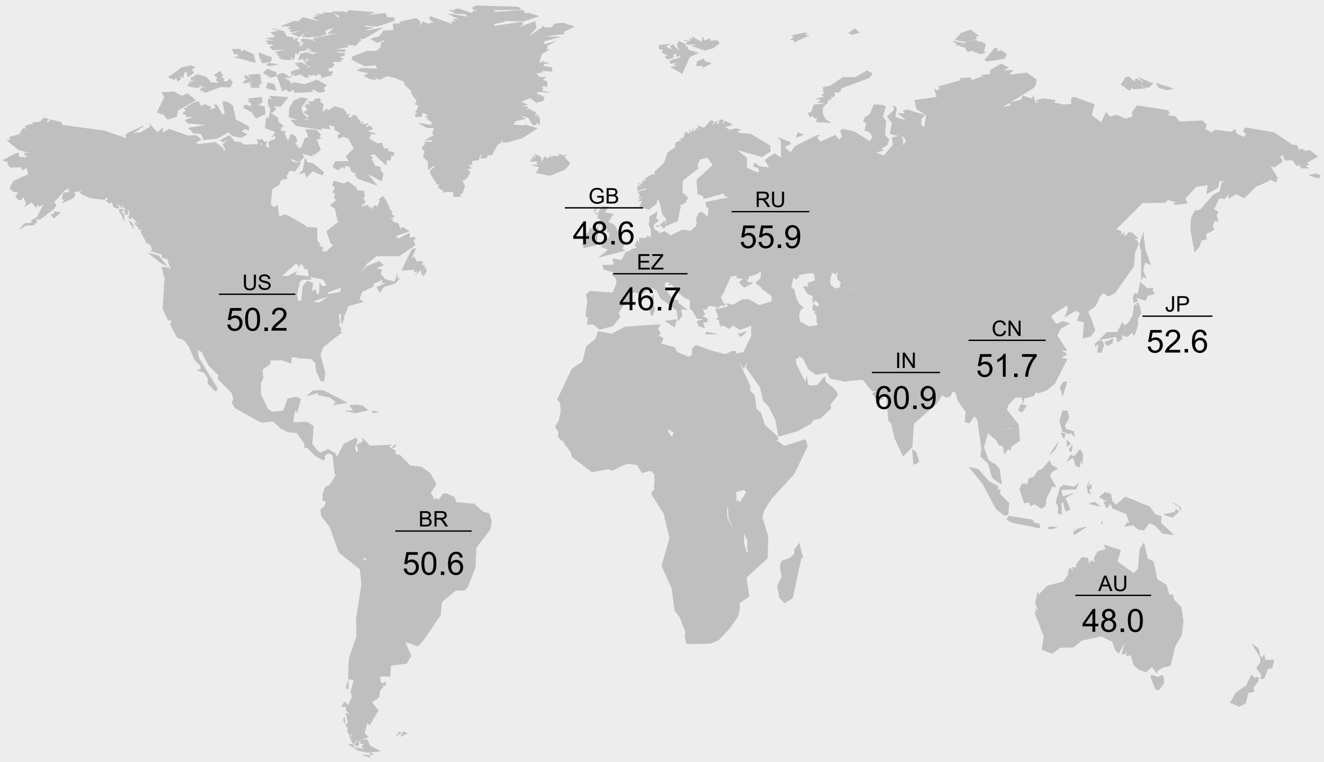
sa, >50 = inflation since previous month



International PMI

Composite Output Index, Aug ‘23
sa, >50 = growth since previous month

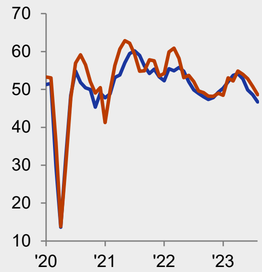
The Composite Output Index is a GDP-weighted average of the Manufacturing Output Index and the Services Business Activity Index.



Composite Output Index

USA
sa, >50 = growth

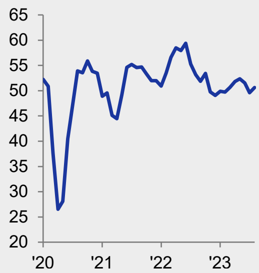
Eurozone
UK
sa, >50 = growth



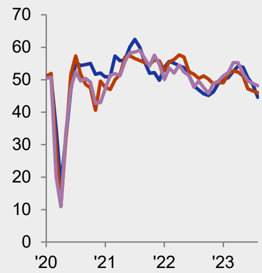
Russia
sa, >50 = growth

China
sa, >50 = growth

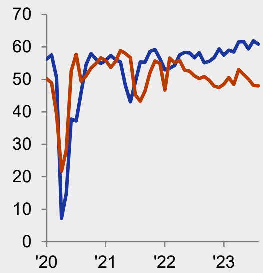
Brazil
sa, >50 = growth



Germany
Italy
France
sa, >50 = growth



India
Australia
sa, >50 = growth



Japan
sa, >50 = growth

PMI™ by S&P Global

Survey methodology

The Stanbic Bank Kenya PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. The sectors covered by the survey include agriculture, mining, manufacturing, construction, wholesale, retail and services. Data were first collected January 2014.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@spglobal.com.

Survey dates

Data were collected 12-27 September 2023.

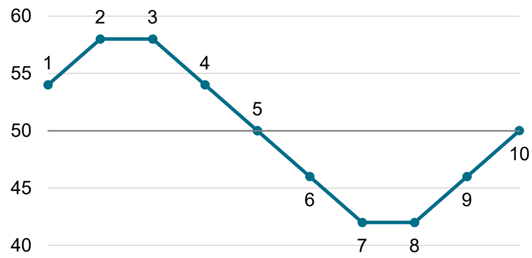
Survey questions
Private sector

Output	Suppliers' Delivery Times
New Orders	Stocks Of Purchases
New Export Orders	Input Prices
Future Output	Purchase Prices
Employment	Staff Costs
Backlogs Of Work	Output Prices
Quantity Of Purchases	

Index calculation

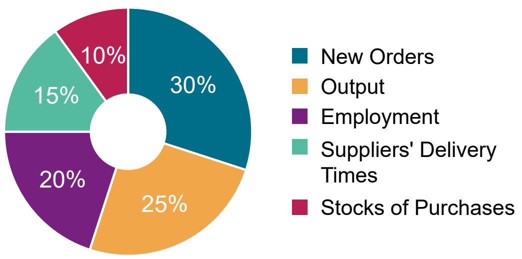
% "Higher" + (% "No change")/2

Index interpretation
50.0 = no change since previous month



1 Growth	6 Decline, from no change
2 Growth, faster rate	7 Decline, faster rate
3 Growth, same rate	8 Decline, same rate
4 Growth, slower rate	9 Decline, slower rate
5 No change, from growth	10 No change, from decline

PMI component weights



Sector coverage
PMI data include responses from companies operating in sectors classified according to the following ISIC Rev.4 codes:

A	Agriculture, Forestry and Fishing	K	Financial and Insurance Activities
B	Mining and Quarrying	M	Professional, Scientific and Technical Activities
C	Manufacturing	N	Administrative and Support Service Activities
F	Construction	P	Education*
G	Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	Q	Human Health and Social Work Activities*
H	Transportation and Storage	R	Arts, Entertainment and Recreation
I	Accommodation and Food Service Activities	S	Other Service Activities
J	Information and Communication		

*Private sector

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About Stanbic Bank Kenya

Stanbic Bank Kenya is a member of the Standard Bank Group, Africa's largest bank by assets. With a solid foundation in Kenya and history spanning over 110 years, Stanbic is one of the top banks operating in Kenya focused on fostering her socio-economic growth wide with a branch network across the country providing services to individuals, businesses and Commercial clients. Standard Bank Group which is the largest financial institution in Africa by Market capitalization, has on-the-ground representation in 20 African countries - making them one of the largest banking networks on the continent. Standard Bank Group's largest shareholder is Industrial and Commercial Bank of China (ICBC), the world's largest bank, with a 20.1% shareholding. Standard Bank Group has direct, on-the-ground representation in 20 African countries.

At Stanbic Bank, we are proudly Kenyan with a clear purpose which is Kenya is our Home, we drive her Growth. This informs everything we do as an organization as we are committed to the growth and development of Kenya, its people and industries. It is with this drive that Stanbic Bank Kenya continues to move forward with its purposeful strategy to drive Kenya's growth by actively seeking opportunities to partner with both Government and private Sector to unlock their potential and contribution to the economy.

Stanbic Bank Kenya provides the full spectrum of financial services. The Consumer and High Net-worth division Stanbic Bank continue to serve the people of Kenya with a range of personal banking products and solutions. Stanbic Bank also offers Wealth services and product offerings, including insurance, investment, fiduciary, bespoke banking and multi-generational wealth preservation solutions to high net worth individuals, retail, business, commercial, and corporate clients across the Bank's footprint.

Its Corporate and Investment Banking division serves a wide range of requirements for banking, finance, trading, investment, risk management and advisory services. Corporate and Investment Banking delivers this comprehensive range of products and services relating to investment banking; global markets; and global transactional products and services. Stanbic Bank's Corporate and Investment Banking expertise is focused on industry sectors that are most relevant to emerging markets. It has strong offerings in oil, gas and renewables; power and infrastructure and agriculture.

With regard to Business and Commercial unit, Stanbic Bank Kenya offers banking and other financial services to medium-sized enterprises and high value small businesses. This unit serves the increasing need among Africa's small business and individual customers for banking products that can meet their shifting expectations and growing wealth.

Stanbic Bank is listed on the Nairobi Securities Exchange (NSE).

http://www.stanbicbank.co.ke

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today. www.spglobal.com.

About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.
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PMI™ by S&P Global